

MINUTES

FINANCE AND RISK MANAGEMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

**One McInnis Parkway, 1st Floor
Retirement Board Conference Room
San Rafael, CA**

August 29, 2018 – 9:00 a.m.

The Board of Retirement for the Marin County Employees' Retirement Association encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board and Committee meetings. If members of the public wish to speak on any agenda item, please alert the Retirement Administrator to that request prior to the matter being called.

CALL TO ORDER

Chair Murphy called the meeting to order at 9:01 a.m.

ROLL CALL

PRESENT: Block, Klein, Murphy, Piombo, Shaw

ABSENT: Given

MINUTES

It was M/S Piombo/Block to approve the May 30, 2018 Finance and Risk Management Committee Meeting Minutes as submitted.

AYES: Block, Klein, Murphy, Piombo, Shaw

NOES: None

ABSTAIN: None

ABSENT: Given

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Committee regarding any agenda item when the Committee considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Committee Agenda. While members of the public are welcome to address the Committee during this time on matters within the Committee's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Committee concerning a non-agenda item. Members of the Committee may (1) briefly respond to statements made or questions posed by persons

addressing the Committee, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No members of the public provided comment.

B. NEW BUSINESS

1. Administrative Budget Fiscal Year 2017/18 Review

Consider and review budget for fiscal year ending June 30, 2018

Retirement Administrator Jeff Wickman apologized for not having the financial information and the Form 700 Summary ready before the meeting. He explained that the work on the annual financial audit and the auditors being onsite overlapped the production of the financial reports for the meeting and as a result he prioritized that the audit work be completed first and then the financial report. He also noted the Form 700 Summary has grown from a few pages to ten pages based on the amount of information being disclosed which has complicated the production of the summary for the meeting.

Mr. Wickman presented and reviewed the Administrative Budget for the fiscal year ending June 30, 2018. Administrative expenditures are at 93% of the budgeted amount for the fiscal year. Salaries and Benefits were under budget for the fiscal year due to vacancies during the year. For the final quarter, the Administrator said utility costs are rising because currently MCERA is the only tenant. Trustee Klein asked about the Pension Obligation Bond (POB) payment, and Mr. Wickman explained that each county department pays its allocation of the County POB from 2002.

Disability-related expenditures trended higher and are still within the budgeted amount. Most of the supplies expense is for FedEx delivery service, which may be reduced depending on the results of the medical advisor Request for Proposal decision. Interdepartmental charges were slightly higher than in prior years and will be monitored over the next few quarters.

Trustee Block inquired whether, for consistency, the depreciation on One McInnis should be included under investment expenses rather than administrative expenses. The Administrator said he would discuss this question with counsel and Ms. Marshall. Mr. Block proposed formalizing an agreement that would outline expectations on interdepartmental charges for next year. In response, Mr. Wickman said he would discuss this question with the Director of Finance.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Mr. Wickman noted that investment manager charges are uneven because they are recorded when the bills are received. Trustee Block mentioned there has been some talk about moving to an accrual basis. Mr. Wickman replied this is an expectation for the current fiscal year and Ms. Marshall will be implementing this change.

The biggest category in non-budgeted expenditures is Retiree Payroll that generally stays consistent throughout the year and then increases in April due to the application of the Cost

of Living Adjustment (COLA). The second biggest expense is investment manager fees. Legal expenses were as expected even with unanticipated additional expenses that came up during the year. MCERA accessed more of Counsel Oryol's time on complicated investment-related issues. County Counsel fees are disability related and reflect the amount of work going into disability processing and appeals.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Educational and event-related expenses reflect continuing education for trustees and staff. MCERA pays for Counsel Dunning to attend CalAPRS Attorneys' Roundtables. The Administrator said we are carrying out our plan to have team members attend CalAPRS roundtables and other related courses. The Benefits Roundtables and the Administrators' Roundtables are valuable educational experiences. In response to Trustee Block's inquiry, Mr. Wickman said in addition to reimbursable expenses, all event-related costs (e.g., registrations) will be included in the report for the next fiscal year.

b. Continuing Trustee Education Log

The Education Log is based on the requirement of 24 hours of continuing education every two years for each trustee. The Summary shows each trustee's total hours of education achieved for the current two-year period. All trustees are meeting this requirement.

c. Other expenses per Checklist Guidelines

A summary of credit card charges was presented to the Committee for review. The Administrator reported that a second credit card will be issued to Kiana Hawkins in accounting.

d. Variances in the MCERA administrative budget in excess of 10%

See discussion above.

e. Vendor services provided to MCERA

MCERA hired Milliman to audit Cheiron's actuarial services.

f. MCERA staffing status

MCERA is reviewing applications for the vacant Benefits Assistant position. Kiana Hawkins was hired as the permanent Accounting Assistant. Mr. Wickman reported MCERA is otherwise fully staffed except for Ms. Hemphill's position, which he is assessing to determine what the ongoing needs are for the position.

g. Internal controls, compliance activities and capital calls

Based on the request of a Board member, commitment amounts for each private equity vehicle have been added to the capital call report. Mr. Wickman reported that older private equity funds are producing distributions along with capital calls, and the new private equity funds are all capital calls. The total commitment to the private equity program is \$400,000,000 that is targeted to 8 to 12% of the Fund. Currently the private equity portfolio value is a little over 10% of the Fund. For this reason, Callan Associate's recommendation has been to harvest returns before making new commitments to the new annual programs for Abbott and Pathway. The Administrator expects Callan to present its recommendation for funding private equity in December.

The report also reflects the systematic rebalancing of the Fund and distributions from value-added real estate portfolios. MCERA received its investment back from the AEW portfolio. Based on Trustee Block's inquiry, Mr. Wickman will review the agreements for the value-added real estate portfolios.

h. Audits, examinations, investigations or inquiries from governmental agencies

There are no other examinations other than the annual financial audit.

i. Other items from the Administrator related to risk and finance

As part of leasing activities, capital improvements are planned for One McInnis. These include enhancements to the lobby and repairs on the pillars in front of the building. Common area maintenance costs will increase from \$7,000 per month to \$14,000 per month for this fiscal year.

The Administrator reported that October through March is a busy time for MCERA as a result of the actuary's annual actuarial valuation (valuation), the audit of the actuary, production of annual benefit statements for members, and the production of audited annual financial statements including the GASB 6768 statements. The goal is to present at a minimum a preview of the valuation report to the Board by the end of the calendar year.

j. Form 700 Summary

The annual Form 700 summary reflects only two investments that potentially may create the need for a recusal determination. Board members and staff have to complete Form 700 annually, as do new and outgoing filers. Counsel Dunning and her staff prepare the report as a control mechanism to flag financial interests where there may be a conflict of interest. Mr. Wickman explained that typically staff addresses these circumstances with each trustee in advance of any meetings. The summary also lists gift reporting to verify that gifts are within appropriate limits and are reported by both the donor and the recipient.

4. Custodial Risk Management

Consider and discuss methods and means of managing custodial risk

Mr. Wickman stated custodial risk management is a new topic for the Board and he consulted with Counsel Dunning on the best way to present a discussion on the topic. Ms. Dunning advised that counsel negotiates to allow as little risk as possible in the custodial agreement. Mr. Wickman began the discussion by reminding the Committee that MCERA currently utilizes State Street Bank and Trust (State Street Bank) as its custodian. In this role State Street Bank holds, in MCERA's name, the securities that are invested in separate accounts within MCERA's portfolio. Currently these are the investments held by Columbus Circle, Wellington Management and Western Asset. These three managers represent approximately \$452 million of the total \$2.5 billion portfolio. All other assets are held in mutual funds or collective investment trusts. Assets held in custody do not become assets of State Street Bank and are segregated from the bank's assets. State Street serves as a fiduciary providing services to the account. Account ownership remains in MCERA's name. Since assets held in custodial accounts do not become assets of State Street Bank, they should not be subject to the claims of the bank's creditors.

Custodial risk is applicable to assets MCERA holds at State Street Bank in a depository account for normal cash transactions such as retiree payroll and in accounts for three separately managed investment portfolios. In researching this topic staff identified two key custodial credit risks: depository risk and investment risk. Mr. Wickman said if the Committee wants to consider the topic further, including collateralized assets for example, he would want to invite an investment consultant or someone from the banking business to lead that discussion with the Committee.

Trustee Block said the first question is whether we considering issuing a Request for Proposal (RFP) for a custodian, and Mr. Wickman replied affirmatively. In that case, Mr. Block said, we should explore the issue more. He recommended a white paper outlining how the custodial system and the settlement processes work that Mr. Wickman will send to the Board. Mr. Block continued by discussing his understanding of the custody process as to how and where transactions are recorded, MCERA's position in the event of a bankruptcy, and monitoring procedures. Given the potential risk that the custodian cannot execute its obligations, Mr. Block prefers to bring in an expert to talk about custodial risk, and for staff to review investment agreements for adequate protections around custodian risk.

Mr. Wickman said MCERA's investment managers use custodians to service their investments. He will confirm that all MCERA's managers use custody accounts. There was general agreement with Trustee Piombo's idea of folding the custodial risk topic into an Investment Committee meeting. The Administrator will look into Trustee Block's request for education focusing on how shares are traded and settled, including how ownership is reflected during the settlement process.

5. Electronic Device Upgrade

Consider and discuss research regarding replacement of iPads

The Administrator reported the electronic device survey results were generally positive. The areas for improvement include the short timeout, lack of tools such as Word and Excel, and the inability to access the internet. Mr. Wickman said the Board has used iPads for nearly five years and so it was prudent to look at potential improvements including replacing the devices. Three options for upgrading the iPad include upgrading to Office 365 and: 1) using the current iPad with a few upgrades; 2) leasing a Surface through the county IST department; or 3) purchasing the new iPad Pro from Apple. Upgrading the current devices would include adding Office tools and addressing some of the timeout tools. Comparisons of the Surface and iPad Pro features and costs were presented.

Committee members discussed preferences for device features including adjusting the timeout, a larger screen, better keyboard, fingerprint technology, access to Word and Excel, and access from personal devices. Considerations discussed included risks associated with using personal devices, WiFi, and the internet. Chair Murphy noted that she is not able to go to the websites to access WiFi in some cases. She indicated she would use the device more if she could access the internet. Trustee Piombo said there would be savings in having greater accessibility and the trustees were capable of managing internet use. Trustee Block indicated the short timeout is annoying and asked if internet websites could be restricted. He supports upgrading devices and prefers Apple devices.

Mr. Wickman proposed the idea of using either the Apple iPad or the Microsoft Surface. Leasing the Surface through IST would alleviate the workload on staff. The Committee expressed a need for the staff to find flexible options for the Board to Consider. The Administrator will discuss options with staff and bring the matter to the Board. Trustee Block suggested that the Governance Committee add a regular upgrade cycle for electronic devices to the related policy and staff will follow up.

6. Annual Audit of Financial Statements Update

Update on audit process

Mr. Wickman reported staff are closing the books and drafting the financial statements for the auditors' review. In October the Ad Hoc Audit Committee will meet with the auditors. The final presentation of the audited financial statements is planned for the November or December Board meeting.

7. Future Meetings

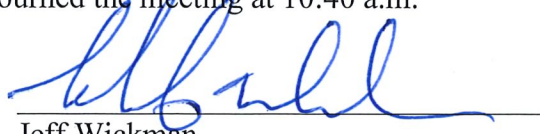
Consider possible agenda topics for future meetings

The Chair invited Committee members to offer potential topics for future meetings and there was no discussion.

There being no further business, Chair Murphy adjourned the meeting at 10:40 a.m.



Laurie Murphy
Chairperson



Jeff Wickman
Retirement Administrator